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UNIVERSITY OF ALBERTA
FACULTY OF BUSINESS ADMINISTRATION
AND COMMERCE
FRANCIS G. WINSPEAR COLLECTION

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CANADIAN PIONEER OILS LTD.
ANNUAL REPORT 1980



STATISTICAL SUMMARY

	1980	1979
Gross Wells Drilled		
Gas	14	7
Oil	0	0
Dry	3	0
Producing and Non-Producing Property Interests		
Gross Acres	60,500.00	17,745.55
Net Acres	23,500.00	6,199.02
Share Price Trading Range		
High	6.50	
Low	3.00	

SHAREHOLDERS' REPORT

The Board of Directors is pleased to present the first annual report of Canadian Pioneer Oils Ltd.

The highlight of the fiscal year ending June 30, 1980 was a public issue of 350,000 common shares of the Company at an issue price of \$3.25/share. This issue provided your Company with working capital slightly in excess of \$1,000,000.00. The offering was completed on December 14, 1979 and the Company subsequently obtained a listing on the Alberta Stock Exchange on February 1, 1980.

This infusion of capital enabled the Company to continue its aggressive land acquisition program which was already well under way. Land holdings have been substantially increased primarily in geologically selected areas of Alberta that are low risk in nature. A strong emphasis has been placed on land acquisition in areas subject to existing gas purchase contracts, which has enabled the Company to participate in wells that may be placed on production in the near future. To be more specific, your Company's land holdings have increased from 17,000 gross acres/6,000 net acres in December 1979 to 60,500 gross acres/23,500 net acres as of October 1980, an increase in excess of 300%. The Company's land philosophy will remain unchanged, with comparable increases expected in the future.

Exploration activity since December 1979 has also increased markedly, with the Company participating in 17 wells. This drilling resulted in 14 successful gas wells and 3 abandonments, equivalent to a success rate of 82.5%. This year's activity coupled with 7 successful gas discoveries in the period March 1978 to December 1979 gives an overall ratio of 21 successful wells out of 24, for a 87.5% success rate.

The Company presently has an interest in 13 wells that are contracted for gas sales. One well has been producing since December 1979. Five more wells are expected to go on production by February 1980, with an additional 8 wells being placed on stream by the end of 1981. The Company intends to continue exploration activity within these contracted areas.

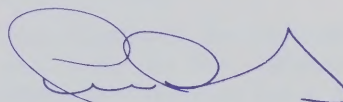
Your Company has been able to generate an appreciable amount of joint venture capital in the last year, in the areas of both land acquisition and exploration. We are looking forward to continued support in the forthcoming year.

In the past year, your Company has increased its involvement in United States exploration and will continue to increase its efforts in the coming years.

Your Company intends to continue pursuing high quality, low risk prospects in both the United States and Canada with an emphasis on prospects that will generate immediate cash flow. 1981 promises to be an exciting year with a view to continued growth and success.

The Board of Directors would like to take this opportunity to thank you for your continued support and interest in Canadian Pioneer Oils Ltd.

On behalf of The Board of Directors.



Perry S. Davids
President



LAND ACTIVITIES

Canadian Pioneer Oils Ltd. continues to concentrate its efforts on a strong program of land acquisition in areas of Central and Southern Alberta where existing gas purchase contracts are in effect.

With this emphasis in mind, we have increased our land holdings in Alberta in excess of 300% since the issue of our December 14, 1979 Prospectus.

	1980	1979
Gross	60,500.00	17,745.55
Net	23,500.00	6,199.02

This land position presently gives us exposure to in excess of eighty (80) spacing units which are subject to existing gas purchase contracts.

In the United States, Canadian Pioneer Oils Ltd., through its wholly-owned subsidiary, Frontier Canadian Oils, has acquired a five percent (5%) working interest in 3,562 contiguous gross acres in Roberts and Hutchinson Counties, Texas.

It has also entered into two drilling option agreements giving it exposure to an additional 6,400 gross acres in Roberts County, Texas.

EXPLORATION AND DEVELOPMENT ACTIVITIES

ALBERTA

From December 14, 1979 to October 31, 1980, your Company participated in sixteen wells in Alberta. This drilling activity resulted in fourteen gas discoveries. All of these wells were drilled in East Central Alberta at depths ranging up to 1,200 meters. During the last year, the Company has concentrated on drilling prospects that are in areas where gas contracts are available. This has resulted in eight of the fourteen wells being subject to gas contracts. The contracts are effective November 1, 1980 or November 1, 1981 and are take or pay contracts with TransCanada Pipelines.

We will continue to actively pursue similar prospects this coming year with the view to building a strong cash flow base in the Company. Several areas in which your Company is an active participant in exploration are detailed below.

KELSEY AREA

The Company participated for a 15% working interest in four wells in this area, resulting in the discovery of three gaswells. The wells are all nominated for a take or pay gas contract with TransCanada Pipelines on November 1, 1980 and will go on stream as gas production facilities are installed. One well is scheduled to go on in November 1980 at a minimum rate of 375 MCF/D (10,620 m³/d). It is further anticipated that we will participate in a further four wells in the Kelsey area over the next six months, which, if successful, will also be subject to gas contracts.

INLAND AREA

In the Inland area of Alberta, your Company has participated in three wells in 1980, by farming out to companies with a gas contract. The three wells were successfully completed as gaswells. It is anticipated that these wells will go on stream November 1, 1981, subject to a TransCanada Pipelines take or pay gas contract. A fourth gaswell, in which the Company has a 32.5% working interest, is subject to a November 1, 1980 take or pay gas contract with TransCanada Pipelines and it is anticipated that it will go on stream in December 1980 at an as yet undetermined rate. By way of farmouts and working interest participation, the Company could participate in another six wells over the next year, which will also be subject to a gas contract November 1, 1981.

VIKING AREA

Your Company participated in three wells in this area over the last eighteen months. One well in which the Company has a 6.25% interest is now on stream at rates of up to 1.7 MMCF/D (48,000 m³/d). A second well in which the Company has a 20% working interest is expected to commence production in November 1980 at a minimum rate of 500 MCF/D (14,160 m³/d). A third well in which the Company has a 17% interest was nominated for a November 1, 1980 gas contract, and it is awaiting completion and production testing to determine feasibility for a hook-up to a market outlet.

RANFURLY AREA

During 1979 your Company drilled a 30% interest gaswell in the Ranfurly area. The well was completed in the Viking zone, and drainage by other producing wells in the pool was removing reserves from under our lands. We were successful in proving the drainage and, as a result, our well was included in the Ranfurly pool. We have completed a gas compressor and pipeline so as to be able to deliver our share of the gas deliverability for the pool. The amount that we can produce will be determined by the Energy Resources Conservation Board at a hearing in November 1980.

UNITED STATES

Last December your Company became involved in oil and gas exploration in Texas. Our first well was an 8,600 foot dry hole drilled in Roberts County, Texas. Subsequent leasing of land and further geological work led the Company and its partners to drill a second well. The second well, in which the Company has a 5% working interest, was a 8,600 foot Mississippian Chester test drilled on a 3,562 acre block and was cased as a potential gaswell. Production testing is now underway to complete the well in several zones of interest for production of gas and condensate.

A third well, a 9,100 foot Mississippian Chester test, was spudded in late October to further evaluate another 3,200 acre block of land prospective for both oil and gas in which the Company can earn an interest by drilling a productive well.

The Texas lands are in areas of existing production and we anticipate an early market for any gas discoveries.

Other areas in the United States are being evaluated for participation in oil and gas exploration on an ongoing basis and the Company will acquire further interests in the United States as suitable prospects become available.

MINERAL EXPLORATION ACTIVITIES

Your Company continues to hold a 50% working interest in four mining claims in the Vernon area of British Columbia. These claims are adjacent to a former gold producing mine, but at present no work is planned on the property.

In the Dominion Creek area of the Yukon, your Company acquired a 50% working interest by way of purchase and by staking, five miles of gold placer claims. Assessment work is being planned for this winter with further evaluations of the properties taking place during the summer of 1981.

AUDITORS' REPORT

To the Shareholders of
Canadian Pioneer Oils Ltd.

We have examined the consolidated balance sheet of Canadian Pioneer Oils Ltd. as at June 30, 1980, and the consolidated statements of loss, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at June 30, 1980 and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
October 16, 1980.

Miller, McClelland & Co.

Chartered Accountants



CONSOLIDATED BALANCE SHEET

AT JUNE, 30, 1980

ASSETS

ASSETS

CURRENT

	1980	1979
Cash	\$ 40	\$ 96,668
Accounts receivable	132,995	44,122
Short-term deposits	500,000	—
	<u>632,995</u>	<u>140,790</u>
LONG-TERM DEPOSITS	20,000	2,500
ADVANCES TO AFFILIATED COMPANY	736	—
FIXED (Notes 1(c) and 2)	157,225	25,456
OIL AND GAS PROPERTIES (Notes 1(b) and 3)	747,257	142,509
DEFERRED OVERHEAD COSTS (Note 1(e))	—	40,693

ON BEHALF OF THE BOARD

Director

Director

1,558,213

351,948

See accompanying notes.

LIABILITIES

	1980	1979
LIABILITIES		
CURRENT		
Bank indebtedness (Note 4)	\$ 338,404	\$ —
Accounts payable and accrued	86,240	74,617
Current portion of long-term debt	—	3,240
	<u>424,644</u>	<u>77,857</u>
LONG-TERM DEBT (Note 5)	—	7,290
SHARE SUBSCRIPTIONS RECEIVED (Note 6)	—	214,300

SHAREHOLDERS' EQUITY

SHARE CAPITAL		
Authorized		
5,000,000 Common shares of no par value to be issued for a maximum total consideration of \$5,000,000		
Issued (Note 7)		
1,383,003 Common shares (1979 — 750,003)	1,380,705	52,501
DEFICIT	(247,136)	—
	<u>1,133,569</u>	<u>52,501</u>
	<u>\$1,558,213</u>	<u>\$ 351,948</u>

See accompanying notes.



CONSOLIDATED STATEMENT OF LOSS AND DEFICIT

FOR THE YEAR ENDED JUNE 30, 1980

REVENUE

Production, net of crown royalties	24,086
Interest	36,402
Other	203

60,691

EXPENSES

Administration	212,344
Depletion	573
Depreciation and amortization	17,709
Dry holes and abandonments	68,671
Lease rental payments	9,112

308,409

Loss from operations

247,718

OTHER ITEMS

Loss on disposal of fixed assets	1,018
Foreign exchange gain	(1,600)

(582)

LOSS FOR THE YEAR AND DEFICIT AT END OF YEAR

247,136

LOSS PER SHARE (Note 10)

21c

See accompanying notes.



CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED JUNE 30, 1980

	1980	1979 8 Months
SOURCE OF WORKING CAPITAL		
Issue of share capital	\$1,420,500	\$ 52,501
Less: Costs of issuing share capital	(92,296)	—
Share subscriptions received	(214,300)	214,300
	<u>1,113,904</u>	<u>266,801</u>
Proceeds on disposal of fixed assets	26,050	—
Total source of working capital	<u>1,139,954</u>	<u>266,801</u>
APPLICATION OF WORKING CAPITAL		
Operations		
Loss for the period	247,136	—
Items not representing a change in working capital		
Deferred overhead expenses	(39,226)	—
Depreciation, amortization and depletion	(18,282)	—
Loss on disposal of fixed assets	(1,018)	—
Total working capital provided to operations	<u>188,610</u>	<u>—</u>
Purchase of long-term deposits	17,500	2,500
Advances to affiliate	736	—
Long-term indebtedness		
Principal repayments	43,530	270
Increase (Decrease) in current portion due	(3,240)	3,240
	<u>40,290</u>	<u>3,510</u>
Deferred overhead costs incurred (net of depreciation)	—	39,226
Purchase of fixed assets	175,079	26,923
Less: Long-term debt incurred	(33,000)	(10,800)
	<u>142,079</u>	<u>16,123</u>
Exploration and development costs	1,748,905	232,457
Less: Recovery of exploration and development	1,143,584	89,948
	<u>605,321</u>	<u>142,509</u>
Total application of working capital	<u>994,536</u>	<u>203,868</u>
INCREASE IN WORKING CAPITAL FOR THE YEAR	<u>145,418</u>	<u>62,933</u>
Working capital, beginning of year	62,933	—
WORKING CAPITAL, END OF YEAR	<u>208,351</u>	<u>62,933</u>

See accompanying notes.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 1980

1. ACCOUNTING POLICIES

(a) Principles of Consolidation

The consolidated financial statements include the accounts of Canadian Pioneer Oils Ltd. and its United States subsidiary company, Frontier Canadian Oils Inc.

Accounts of the foreign operations are stated in Canadian dollars, using the temporal method of accounting whereby the assets and liabilities are translated in a manner that retains the particular basis of valuation. Cash and amounts receivable or payable are translated at the current rate of exchange at the balance sheet date. For other assets and liabilities, their particular basis of valuation determines the translation rate: items carried at past prices are translated at historical rates and items carried at current prices are translated at the current rate. Translation of revenue and expense items, other than depreciation and depletion, is at the average rate of exchange for the year.

(b) Oil and Gas Properties

The company follows the successful efforts method of accounting for oil and gas properties. Costs applicable to successful wells and acquisition costs of undeveloped oil and gas properties are capitalized. Cost of abandoned leases and dry hole costs are charged against income in the year of abandonment. Geological and geophysical costs that do not result in the acquisition or retention of acreage and the cost of lease rentals, are charged against income in the year incurred.

Producing oil and gas properties will be depleted on a unit-of-production method based on estimated proven oil and gas reserves as determined by independent petroleum engineers.

(c) Fixed Assets and Depreciation

Fixed assets are stated at acquisition cost. Depreciation on automotive equipment is being provided using the declining-balance basis, and on all other fixed assets using the straight-line basis, at the rates indicated in Note 2.

(d) Joint Venture Accounting

All of the company's exploration, development and production activities related to oil and gas are conducted jointly with others, and accordingly the accounts reflect only the company's proportionate interest in such activities.

(e) Deferred Overhead Costs

All activities of the company to June 30, 1979 were in the area of assembling leases and organizing drilling activities. The overhead costs to June 30, 1979 were deferred and written off during 1980, the first fiscal year in which significant drilling activity took place.

2. FIXED ASSETS

	Rate	Cost	Accumulated Depreciation	Net Book Value	
				1980	1979
Automotive	30 %	50,958	5,687	45,271	20,045
Furniture and equipment	10 %	34,950	3,856	31,094	4,635
Leasehold improvements	5 yrs.	22,496	2,334	20,162	776
Gas gathering system	expected life of well	60,698	—	60,698	—
		<u>169,102</u>	<u>11,877</u>	<u>157,225</u>	<u>25,456</u>

3 . OIL AND GAS PROPERTIES

	Cost	Accumulated Depletion	Net Book Value	
			1980	1979
Developed petroleum and natural gas properties	220,765	573	220,192	10,743
Undeveloped petroleum and natural gas properties	527,065	—	527,065	131,766
	<u>747,830</u>	<u>573</u>	<u>747,257</u>	<u>142,509</u>

4. BANK INDEBTEDNESS

	1980	1979
Bank indebtedness consists of:		
Bank overdrafts	98,404	—
Demand bank loan — 14 ½ %	240,000	—
	<u>338,404</u>	<u>—</u>

The bank loan is secured by a general assignment of accounts receivable and an agreement respecting hydro-carbons.

5. LONG-TERM DEBT

	1980	1979
13% loan repayable in monthly installments of \$270 plus interest with a final payment of \$4,590 due April 30, 1981	—	10,530
Less: Portion due within one year	<u>—</u>	<u>3,240</u>
	<u>—</u>	<u>7,290</u>

6. SHARE SUBSCRIPTIONS RECEIVED

The company offered a private issue of common shares from treasury at \$1 per share, and at June 30, 1979 had received funds as payment for \$208,550 of these shares and had given credit for services in the amount of \$5,750 to apply against 5,750 shares. The directors gave approval for the issue of 283,000 common shares on July 30, 1979 to subscribers including those whose funds had been received to June 30, 1979.

7. SHARE CAPITAL

The changes in the issued and outstanding shares of the company for the year ended are as follows:

	#	\$
Balance, beginning of year	750,003	52,501
Additions		
Issued under a private placement agreement approved July 20, 1979 for \$1.00 per share	283,000	283,000
Issued under a public offering dated December 14, 1979 for \$3.25 per share	350,000	1,137,500
Deduct: Costs of issuing share capital	—	(92,296)
Balance, end of year	<u>1,383,003</u>	<u>1,380,705</u>

Options to buy treasury stock of the company were issued on July 20, 1979, to three directors entitling them to subscribe for a total of 90,000 common shares at a price of 82¢ per share at any time up to and including January 20, 1981. A June 17, 1980 meeting of the directors approved loans made subsequent to the year-end totalling \$73,800, to the aforementioned directors enabling them to exercise the said options.

The loans would be interest free and secured by promissory notes due October 17, 1980.

By resolution of the directors, dated June 9, 1980, 300,000 of the authorized common shares are reserved for an employee incentive stock option plan. As at June 30, 1980 options for 15,000 shares, at \$3.40 per share, had been issued.

8. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The remuneration paid during the year to three senior officers totalled \$56,850.
No remuneration was paid to the directors in their capacity as directors.

9. COMPARATIVE FIGURES

Certain of the prior year's figures have been reclassified to conform with current year's presentation.

10. LOSS PER SHARE

The loss per common share was calculated by dividing the weighted average shares outstanding during the year, into the loss for the year.

11. LONG-TERM COMMITMENTS

The company occupies its premises under a 5-year lease agreement providing a yearly rental of \$16,379 until 1985.

12. INCOME TAXES

- (a) The company has incurred accumulated losses of \$221,120 for income tax purposes, which are available to reduce taxable income in future years until:

1984	39,226
1985	<u>181,894</u>
	<u>221,120</u>

- (b) At June 30, 1980, depreciation and amortization recorded in the accounts exceeded the amount claimed for income tax purposes, resulting in a net deferred tax charge in the amount of \$8,146, which is not included in the financial statements.

OFFICERS AND DIRECTORS

Perry S. Davids, Bragg Creek, Alberta
President and Director

Thomas C. Riddell, Calgary, Alberta
Secretary-Treasurer and Director

David H. Erickson, Calgary, Alberta
Vice President and Director

Bruce R. Libin, Calgary, Alberta
Director

Head Office

404, 525-11th Avenue S.W.
Calgary, Alberta T2R 0C9

Subsidiary Company

Frontier Canadian Oils

Auditors

Miller, McClelland & Co.
1603-10th Avenue S.W.
Calgary, Alberta

Legal Counsel

Burnet, Duckworth & Palmer
800, 335-8th Ave. S.W.
Calgary, Alberta

Banker

Canadian Imperial Bank of Commerce

Registrar and Transfer Agent

The Canada Trust Company
239-8th Avenue S.W.
Calgary, Alberta

Stock Exchange Listing

The Alberta Stock Exchange

